Year End Forecast Update

PROVINCE OF NOVA SCOTIA
HONOURABLE Neil LeBlanc
Minister of Finance

YEAR END FORECAST UPDATE
for Fiscal 1998-1999 and 1999-2000
Released September 28, 1999

Summary 1998 -1999

The Government of Nova Scotia is making significant changes in the way it presents its budgets and financial statements. The commitment is to present the information in a complete and straightforward manner, consistent with the way most businesses present their accounts. These changes will result in financial statements prepared in accordance with Generally Accepted Accounting Principles, with one consolidated final "bottom line"; consistent with recommendations made by the Auditor General and many others familiar with accounting practices. The Department of Finance reviewed its Year End Forecast results for 1998-1999 with the Auditor General and has now made significant changes compared to results reported on June 1, 1999.

The normal year-end process also identified a number of adjustments. As a result of these two processes, the Province now expects the final Audit Report in the Public Accounts to show a Provincial Deficit of approximately $385 million. The Province is also recording a change in Pension Liabilities of $251 million and Prior Period Adjustments of $564 million. The Prior Period Adjustments are expenditures that would have been included in the accounts of the Province in prior years, if the current accounting standards had been in place. As a result of these changes, the Net Direct Debt of the Province is forecast to total $9.6 billion as of March 31, 1999.

It should be noted that a significant portion of the increase in the Net Direct Debt had been previously reported (June 99). This included $116 million in Sysco/NSRL current year losses; $226 million of the $280 million in accumulated deficits of hospital boards; and the impact of the Pension Contribution Holiday Restatement and the change in unfunded pension liabilities which together total $306 million. Also, an increase in the Net Direct Debt and the cost of servicing that debt is not directly connected. eg. the increase in pension unfunded liabilities does not affect debt service payments and the majority of the health and hospital board deficits were in the form of non-interest bearing loans from the province, and so expense had already been included in debt servicing costs.

Reconciliation of Financial Results for the Fiscal Year ending March 31, 1999

	Estimate	Forecast
Revenue	4,382,718	4,525,896
Net Program Expenditures *	3,690,824	3,761,576
Net Debt Servicing Costs	690,742	741,692
Total Expenditures	4,381,566	4,503,268
Budgetary Surplus (Deficit) as reported 01-June-99	1,152	22,628
Adjustments since 01-June-99 Forecast		
Year End Review Adjustments:		
Adjustments to Revenue		24,727
Adjustments to Expenditures		
Adjustments to Debt Servicing Costs		8,525
New School Construction Costs (P3 Capital Leases)		
Recognition of Foreign Exchange Losses		
Restatement of Pension Contribution Holiday		
Surplus(Deficiency) for Government Organizations		
Health and Hospital Board deficits in fiscal 1998-1999		
School Board deficits and pension obligations		
Other Organizations		9,600
Surplus(Deficiency) for Government Business Enterprises		
Nova Scotia Resources Limited		
Sydney Steel Corporation		
Other Enterprises		14,979
Total Adjustments		
Provincial Surplus (Deficit)		

* Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs

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Details - Fiscal 1998-1999

Year End Adjustments

General Adjustments

The previous forecast released June 1, 1999, showed a Budgetary Surplus of $22.6 million. As a result of regular year-end adjustments, revenues increased by $24.7 million and Net Debt Servicing Costs were reduced by $8.5 million. However, some program expenditures came in higher than forecast, for a negative impact of $11 million. The total change was a positive $22.2 million.

New School Construction Costs - (P3 Capital Leases)

The construction of a new school creates an asset that will have a life well beyond a single fiscal year. How to account for such an expenditure becomes quite complex when the financing is done through a lease and the issue of ownership and financing arrangements arise. In this case, if the government is taking on most of the risks normally associated with ownership, accounting standards require the government to show the capital cost of the lease as a liability on the Balance Sheet and an expense on the Statement of Revenue and Expenditures. If a significant portion of these risks is transferred to the private partner, then only the annual lease operating cost is included as part of the government's expense.

In the case of the first four P3 School leases, an accounting review revealed the risk transfer from the public partner to the private partner was insufficient to classify the expenditure as an operating lease. Accordingly, the current year construction cost of $56 million is recorded as an expense in 1998-1999. A capital lease liability is recorded and will be reduced over the term of the lease payments. An additional $7 million adjustment is made for capital costs in prior years.

Accounting Policy Changes

To be consistent with Generally Accepted Accounting Principles, the Province has made major changes in the way it accounts for Foreign Exchange Gains and Losses. The policy of consolidated accounting results in improved disclosure of the Province's assets, liabilities and financial results for each fiscal year.

Foreign Exchange Gains and Losses

The Province's presentation of Foreign Exchange Gains and Losses is now consistent with Generally Accepted Accounting Principles. The previous accounting policy amortized the gains and losses over a 20 year period. The new accounting policy amortizes the gains and losses over the remaining term of an issue. As the average remaining term is less than 20 years, the accumulated losses are now amortized over a shorter period of time. Accordingly, the Net Debt Servicing Costs for 1998-1999 have been increased by $71.5 million. An additional $185.0 million should have been amortized in prior years and is shown as a prior year's adjustment on the Statement of Net Direct Debt.

Consolidation of Accounting

The government's decision to create a "single bottom line" means it must identify all entities that are accountable to a Minister of the Legislature, and their financial results become part of the consolidated Provincial Surplus/(Deficit). Once the accounting adjustments are complete, it is expected that all the revenues and expenditures of the Province will be counted, with this annual change in financial position being the only transaction that is added or subtracted from the Net Direct Debt.

Government Organizations

Regional Health Boards and Non-Designated Organizations

Over the past four years, Regional Health Boards and Non-Designated Organizations (the QEII, the IWK-Grace, the NS Hospital and the Cape Breton Healthcare Complex) had annual shortfalls in funding amounting to a total of $226 million. The June Forecast was prepared using the assumption that those liabilities would be absorbed by the Province, but would not be recorded as part of the deficit/surplus calculation. Having received audited financial statements from the Boards, a review indicates further adjustments and accruals for vacation pay liabilities of $54 million. The proper presentation of the results shows an expense in 1998-1999 of $124 million. The balance of the liabilities ($156 million) is allocated to the years the spending took place.

School Boards and Other Organizations

School Boards are required by law to balance their budgets each year. However, some boards have recorded deficits with plans to recover the loss in future years. Their operations for 1998-1999 impacted the consolidated deficit by $31.8 million. The Boards also have $194 million in liabilities with respect to the Early Retirement Program established in 1994, of which $154 is recorded as

an adjustment to prior years. An additional $26 million is also recorded in prior years to account for school board deficits in those years and other consolidation adjustments.

Government Business Enterprises

Sysco - Nova Scotia Resources Limited

The most significant change is the inclusion of the annual operating deficiencies of Nova Scotia Resources Limited and Sydney Steel. The changes noted are for the Year Ending 1998 as both entities report on a calendar year basis. The current year deficiency noted has been previously reported as a direct charge to the Net Direct Debt of the Province.

Other Government Business Enterprises and Organizations

The Province now accounts for a total of 38 major organizations and business enterprises. Detailed work on the Net Change in Financial Position for these entities is not yet complete, but the current forecast calls for a positive impact of $24.6 million. The work toward full consolidation will be completed in time for the publication of the Audited Financial Statements in the Public Accounts for 1998-1999. The budget for 1999-2000 will include an estimate for the current year's change in financial position for these organizations and enterprises.

Other Accounting Changes

Tangible Capital Assets

The Province is currently completing research on an evaluation of the Tangible Capital Assets of the Province. In previous years, equipment, bridges, buildings etc. were fully expensed in the year they were acquired, despite the fact that they had significant value for years to come. It is the intention of the government to adopt Generally Accepted Accounting Principles for the accounting of such purchases with the tabling of the Financial Statements for 1999-2000.

Pension Cost Accounting

With respect to pension cost accounting, the Province currently records the cash cost of pension plan contributions as the expense for the current year. The generally accepted practice would be to record the actual cost of the pensionable service earned by the employees in the current year. This change will likely result in a relatively minor increase in costs in the order of several million dollars. However, the Province also intends to adopt new accounting principles with respect to the change in the unfunded liabilities of the pension plans. The full impact of these accounting change needs to be researched further. Until the research is complete and the full policy is implemented for 1999-2000, other pension fund valuations will continue to be shown as a change in Net Direct Debt for 1998-1999.

It should be noted however, that the province had originally recorded two years of pension contribution holidays as cost recoveries in 1998-1999. The contribution holiday reduced the pension plan assets (cash) and correspondingly increased the plan's net unfunded liability. To more accurately reflect this overall change, the Province will now record the total of the contribution holiday and the increase in pension liability as a single charge to Net Direct Debt instead of as a cost reovery.

Forecast Update Budget 1999-2000

As a result of the spending decisions set in place in the spring of 1999, and the change in accounting policies requiring the accounting for all government entities, the budget to be placed before the legislature in October for 1999-2000 will forecast a substantial deficit. The government has received a mandate in the election on July 27, 1999 to bring the Province's finances into full balance in the third year of its mandate. The plans to accomplish this task will begin to be outlined in the budget this fall, with the first full year of the plans reflected in Budget 2000-2001. Where required, legislation will be introduced or amended to reflect the government's mandate.

In the meantime, there is no budget approved by the legislature for the fiscal year 1999-2000. Under these circumstances, the Provincial Finance Act allows for the spending by Departments in an amount up to 50% of their authority in the budget estimate for the previous year (Estimate 1998-1999) In addition, the Lieutenant-Governor has approved special warrants that allow for a total spending authority of $3.7 billion, which was the forecast maximum requirement to December 31, 1999. However, those expenditure plans are expected to be revised in the new budget. Accordingly, a more detailed forecast of revenues and expenditures will be available upon the tabling of the new budget in mid-October.

Year End Forecast Update

YEAR END FORECAST UPDATE
for Fiscal 1998-1999 and 1999-2000

Released September 28, 1999

Restated Consolidated Financial Summary for the Fiscal Year ending March 31, 1999 *($ thousands)*	**Budget**	**Forecast (01-June-99)**	**REVISED Forecast**
Revenue	4,382,718	4,525,896	4,550,623
Net Program Expenditures *	3,690,824	3,761,576	3,882,113
Surplus (Deficiency) for Government Organizations:			
Health and Hospital Board deficits in fiscal 1998-1999			123,647
School Board deficits and pension obligations			31,783
Other			[illegible]
Net Debt Servicing Costs	690,742	741,692	734,263
Recognition of Foreign Exchange Losses	---	---	71,470
Total Expenditures	4,381,566	4,503,268	4,833,676
Surplus (Deficit) before Government Business Enterprises	1,152	22,628	[illegible]
Surplus (Deficiency) for Government Business Enterprises			
Nova Scotia Resources Limited			[illegible]
Sydney Steel Corporation			[illegible]
Other Enterprises			14,979
			[illegible]
Provincial Surplus (Deficit)			[illegible]

* Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs

Net Direct Debt

As a result of accounting policy changes, the Net Direct Debt of the Province has been restated for previous years. It should be also noted that a number of the items now included as part of the Annual Surplus (Deficit) had been previously reported directly as a change in the Net Direct Debt. The Statement below reconciles the Net Direct Debt as a result of these changes. The reported number for March 31, 1999 is $574.0 million higher than reported previously. The difference is largely due to the consolidated accounting adjustments for School and Health Boards, the Foreign Exchange Losses from accelerated amortization and the capitalizing of P3 School Construction Costs. It should be noted that while the move to full accrual accounting will more properly disclose the change in the consolidated financial position, there is not a direct relationship between debt servicing costs and the change in Net Direct Debt.

PROJECTED NET DIRECT DEBT
($ millions)

Net Direct Debt as at March 31, 1998 - as orignally reported		**8,369.1**
Prior Period Adjustments:		
Correction of HST Revenue	21.9	
New School Construction Costs	7.2	
Foreign Exchange Losses	185.0	
Deficits of the Health and Hospital Boards	156.0	
School Boards' obligation for ERP and Consolidation Adjustments	180.2	
Other	14.0	564.3
Net Direct Debt as at March 31, 1998 - as restated		**8,933.4**
Provincial Deficit for fiscal 1998-1999	384.1	
Change in Net Unfunded Liability for Pension Obligations	251.0	635.1
Net Direct Debt as at March 31, 1999 as reported September 28, 1999		**9,568.5**

Year End Forecast Update

Fiscal 1999-2000. Released December 22, 1999 **Honourable Neil J. LeBlanc. Minister of Finance**

OVERVIEW 1999-2000

The Department of Finance is revising its deficit forecast for 1999-2000. The October provincial budget estimated a deficit of $496.6 million for this period, but that figure is now forecast to be $489.0 million, $7.6 million less than estimated. The primary reason for this is an increase of $44.5 million in provincial personal income tax revenues.

The increase in revenues offsets increases in program spending and net debt servicing costs.

The Nova Scotia economy continues to perform at the national average as forecast in the budget. Key economic indicators such as employment, personal income and retail sales continue the growth forecast in the October budget. With these underlying assumptions confirmed, the Department of Finance is maintaining its forecast of real GDP growth of 3.4% in 1999 and 3.0% in 2000.

FISCAL SUMMARY *($ thousands)*	**1998-1999 Actual**	**1999-2000 Budget**	**1999-2000 Forecast**	**Per Cent (%) Change from 1999-2000 Budget**
Consolidated Fund				
Revenue	**4,550,623**	**4,622,985**	**4,667,447**	**0.96%**
Net Program Expenditures *				
Health	1,632,042	1,770,630	1,767,161	-0.20%
Education and Universities	1,086,817	1,070,978	1,080,166	0.86%
Community Services	565,829	580,173	576,298	-0.67%
Other Net Program Expenditures	721,072	809,396	830,325	2.59%
Total - Net Program Expenditures	4,005,760	4,231,177	4,253,950	0.54%
Net Debt Servicing Costs	805,733	799,552	813,600	1.76%
Total Expenditures	**4,811,493**	**5,030,729**	**5,067,550**	**0.73%**
	(260,870)	**(407,744)**	**(400,103)**	
Consolidation Adjustments for Government Service Organizations				
School Boards Operations and Pension Obligations	(33,657)	---	---	
Health and Hospital Boards Debt and Deficits	(106,349)	---	---	
Other Organizations	(145,258)	---	---	
	(285,264)	---	---	
Net Income (Losses) for Government Business Enterprises				
Nova Scotia Resources Limited	(75,784)	(65,100)	(65,100)	
Sydney Steel Corporation	(31,331)	(31,800)	(31,800)	
Other Enterprises	267,853	8,000	8,000	
	160,738	**(88,900)**	**(88,900)**	
Provincial Surplus (Deficit)	**(385,396)**	**(496,644)**	**(489,003)**	

*Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs.

REVENUES

The Province is currently forecasting a revenue increase of $44.5 million over the original budget estimate for the fiscal year ending March 2000. A major reason for this improvement is updated information for Provincial Personal Income Taxes. Revised national forecasts show personal income levels and resulting Basic Federal Tax (the base upon which Nova Scotia income is forecast) to have increased from 1998 onward. This has resulted in forecasted 1999-2000 personal income tax revenues for Nova Scotia to be $55.2 million higher than estimate. Corporate income taxes are forecasted to increase by $2.0 million due to upward revisions of national levels of corporate taxable income.

Nova Scotia Gaming Corporation profits are also forecasted to be up slightly by $1.8 million. Nova Scotia Liquor Commission profits are anticipated to be up $1.0 million due to stronger sales through the summer and early fall. All other own source revenues remain on target with the budget estimate.

Federal transfers have responded to the increases in provincial income tax revenues. Equalization is expected to decrease by $13.0 million for 1999-2000 as Nova Scotia's economic performance, relative to the five province standard, has remained strong. At the same time, the Canada Health and Social Transfer (CHST) forecast increased by $5.7 million over the 1999-2000 estimate as the equalization associated with the tax portion of the transfer, began to decrease for Nova Scotia. In total, federal transfers are forecast to be $7.3 million lower in 1999-2000.

Previous years estimates for equalization are down as well, resulting in an overall negative Prior Years' Adjustment of $8.4 million. Miscellaneous other items of approximately $200,000 account for the remainder of the positive changes to Revenues.

NET PROGRAM EXPENDITURES

All departments, with the exceptions of Education and Economic Development, have been spending at or less than the amounts estimated in the October budget. The over-expenditure at Education ($9.2 million) is primarily due to increased applications under the Student Assistance Program.

Economic Development had entered into an agreement with Stora Enso of Port Hawkesbury to assist with training once certain performance targets were met. This target has been met and Economic Development completed its part of the agreement by making a final payment of $10.2 million to Stora Enso. The over-expenditure was not reflected in the recent budget as a plan to spread this payment over future years had been initiated by the previous government. After a subsequent review, it was determined that the company met all conditions of the agreement and that the payment should be made now.

The government also increased the amount budgeted to provide for possible loan losses. Economic Development was asked to review its valuation allowances, the amount reserved to manage provincial exposure. In order to provide for a more prudent reserve for possible loan losses, the forecast includes an additional $11.1 million.

These over-expenditures have been partially offset by spending reductions ($7.7 million) in other departments, most notably Community Services and Health. Community Services reported $3.9 million savings due to lower income assistance payments. Health recorded $3.5 million savings because of lower Y2K costs.

NET PROGRAM EXPENDITURES SUMMARY *($ thousands)*	1998-1999 Actual	1999-2000 Budget	1999-2000 Forecast	Favourable/ (Unfavourable) Change from Budget
Agriculture and Marketing	35,626	42,238	42,238	---
Business and Consumer Services	31,318	33,135	33,135	---
Community Services	565,829	580,173	576,298	3,875
Economic Development	77,268	60,268	81,591	(21,323)
Education and Universities	1,086,817	1,070,978	1,080,166	(9,188)
Environment	15,480	15,678	15,676	2
Finance	8,332	9,941	9,941	---
Fisheries and Aquaculture	5,863	9,396	9,362	34
Health	1,632,042	1,770,630	1,767,161	3,469
Housing and Municipal Affairs	106,328	101,938	101,938	---
Human Resources	3,983	4,334	4,334	---
Justice	80,118	82,582	82,582	---
Labour	10,328	11,040	10,940	100
Natural Resources	53,886	56,707	56,707	---
Public Service	67,389	86,015	85,918	97
Tourism and Culture	---	40,456	40,456	---
Transportation and Public Works	236,468	239,568	239,407	161
Unallocated Recoveries	(14,099)	---	---	---
Restructuring Costs	2,784	16,100	16,100	---
Total - Net Program Expenditures	**4,005,760**	**4,231,177**	**4,253,950**	**(22,773)**

DEBT MANAGEMENT

Net debt servicing costs are calculated by subtracting sinking fund earnings from debt servicing costs. Debt servicing costs are forecasted to be $2.4 million more than budgeted due to unfavourable changes in the U.S. dollar and Japanese Yen exchange rates. Sinking fund earnings are forecasted to be $11.6 million less than budget. Therefore, net debt servicing costs are now forecasted to be $14.0 million higher than originally budgeted. The current assumption for the Canadian dollar is $1.4826 ($0.674491), for Canadian treasury bills 4.80% and for the Japanese Yen 103.5.

RATING AGENCY REVIEWS

The rating agency review process was completed for fiscal 1999-2000 on November 26, 1999. The ratings of the province remain unchanged at A(low) by Moodys' Investor Service, Standard and Poor's Inc. and Canadian Bond Rating Service, and BBB(high) by Dominion Bond Rating Service. The rating outlook for the Province remains at stable for all agencies except Canadian Bond Rating Service which moved the Province's rating outlook from stable to negative.

BORROWING PROGRAM

Once again the Province has had a very successful borrowing program. The Province has issued $830 million to date this fiscal year. In early December the Province raised $675 million with three transactions: a five-year Canadian $300 million debenture in the Canadian domestic market with a coupon of 6.25%, a six-year Canadian $250 million debenture in the Euro-Canadian market with a coupon of 6.25% and a three-year Canadian $125 million private placement with a coupon rate of 6.25%.

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Year End Forecast Update

Fiscal 1999-2000. Released March 3, 2000 **Honourable Neil J. LeBlanc, Minister of Finance**

OVERVIEW 1999-2000

The Department of Finance is revising its deficit forecast for 1999-2000. The October 1999 provincial budget estimated a deficit of $496.6 million. An extraordinary item will now be included in the 1999-2000 fiscal year which will significantly increase this figure. Provision for pension liability and environmental clean-up costs at Sydney Steel Corporation (Sysco) will be included in this forecast in the amount of $378.5 million. The total provincial deficit is now forecast to be $767.0 million. Net direct debt for 1999-2000 now stands at $10.8 billion.

This Sysco provision recognizes the liabilities that the government will incur under either a sale or closure scenario for the company.

1999-2000 FISCAL SUMMARY *($ thousands)*	**Budget**	**Forecast**	**Per Cent (%) Change from Budget**
Consolidated Fund			
Revenue	**4,622,985**	**4,763,196**	**3.03 %**
Net Program Expenditures *			
Health	1,770,630	1,763,956	(0.38)%
Education and Universities	1,070,978	1,075,517	0.42 %
Community Services	580,173	581,780	0.28 %
Other Net Program Expenditures	809,396	827,661	2.26 %
Total - Net Program Expenditures	4,231,177	4,248,914	0.42 %
Net Debt Servicing Costs	799,552	808,451	1.11 %
Total Expenditures	**5,030,729**	**5,057,365**	**0.53 %**
	(407,744)	**(294,169)**	
Net Income (Losses) for Government Business Enterprises			
Nova Scotia Resources Limited	(65,100)	(32,211)	
Sydney Steel Corporation	(31,800)	(38,606)	
Other Enterprises	8,000	8,000	
	(88,900)	**(62,817)**	
Consolidated Fund Accounting Adjustments			
Long Term Service Awards	---	(5,500)	
Pension Funds	---	(26,000)	
	---	**(31,500)**	
Provincial Surplus (Deficit) before Extraordinary Item	**(496,644)**	**(388,486)**	
Extraordinary Item			
Sydney Steel Corporation	---	(378,500)	
Provincial Surplus (Deficit)	**(496,644)**	**(766,986)**	

OVERVIEW 1999-2000 (Continued)

The pension amount of $60 million is the portion of the liability as estimated by Sysco's actuaries that will be expensed in 1999-2000. The environmental remediation consists of $250.0 million for the Sysco site and $68.5 million for the Nova Scotia share of the Muggah Creek site, which includes the Tar Ponds and the coke ovens. Both pension and environmental provisions are based upon independent third party reports.

The Sysco provision does not represent an immediate cash expenditure in 1999-2000. However, the liability must be booked in the fiscal year it becomes known even though the cash may be spent over a number of future years.

Revenues are forecast to increase by $140.0 million, including a prior years' adjustment of $17.3 million. Most of this increase is due to higher provincial income tax revenues. This increase in revenues has offset increases in net debt servicing costs and program expenditures.

The Department of Finance estimates that real GDP growth of 3.4 per cent for 1999 that was forecast in the October budget has been achieved. Underlying growth assumptions for key economic indicators for employment, personal income and retail sales have all exceeded budget expectations. This growth momentum is expected to carry over into 2000.

REVENUES

The Province is currently forecasting a revenue increase of $140.0 million over the original budget estimate for this fiscal year and $95.7 million higher than the December 1999 forecast update. Updated information has shown an increase in Nova Scotia income tax revenues. This has resulted in Nova Scotia's forecasted 1999-2000 personal income tax revenues to be $91.7 million higher than estimate. Corporate income tax revenues are forecast to increase by $10.9 million.

Net Harmonized Sales Tax revenues reflect modeling changes which ensure the formula more closely reflects changes in the pool of taxes actually collected. As such, the HST forecast has been revised downward by $13.2 million from the 1999 estimate.

Federal transfers have responded to the overall growth in national income tax levels. Equalization has increased by $18.0 million versus estimate and CHST has increased by $6.4 million. Prior years' adjustments are now forecast to be $17.3 million. This is due to the increases in income tax revenues and the corresponding changes in federal transfers.

Nova Scotia Gaming Corporation profits are up $7.3 million, primarily as a result of the new arrangement between the Province and Atlantic Lottery Corporation. Nova Scotia Liquor Commission profits are anticipated to be up $2.4 million due to stronger sales through the fall. Health Services Tax, the former provincial sales tax in Nova Scotia, is expected to wind down this year. Assessments have climbed by $6.6 million versus estimate due to ongoing audits.

NET PROGRAM EXPENDITURES

All but four departments have been spending at or below their budget estimates. Savings of $12.9 million have been offset by expenditure increases at Community Services, Economic Development, Education and Justice. The increases at Education and Economic Development were reported in the December 1999 forecast update. Community Services is forecasting an over-expenditure of $1.6 million, primarily due to the recently announced heating oil assistance program and increased income assistance expenditures. Justice has experienced increased costs associated with the institutional abuse investigation and compensation program.

The most significant program expenditure savings occurred at Health ($6.6 million) and Transportation and Public Works ($2.0 million). In addition to reduced Y2K expenditures that Health reported in the December forecast update, both departments are forecasting lower capital expenditures for 1999-2000.

NET PROGRAM EXPENDITURES SUMMARY *($ thousands)*	1999-2000 Budget	1999-2000 Forecast	Favourable/ (Unfavourable) Change from Budget
Agriculture and Marketing	42,238	42,212	26
Business and Consumer Services	33,135	32,040	1,095
Community Services	580,173	581,780	(1,607)
Economic Development	60,268	82,119	(21,851)
Education and Universities	1,070,978	1,075,517	(4,539)
Environment	15,678	15,205	473
Finance	9,941	9,941	---
Fisheries and Aquaculture	9,396	8,880	516
Health	1,770,630	1,763,956	6,674
Housing and Municipal Affairs	101,938	101,938	---
Human Resources	4,334	4,234	100
Justice	82,582	85,258	(2,676)
Labour	11,040	10,340	700
Natural Resources	56,707	56,524	183
Public Service	86,015	85,042	973
Tourism and Culture	40,456	40,240	216
Transportation and Public Works	239,568	237,588	1,980
Restructuring Costs	16,100	16,100	---
Total - Net Program Expenditures	**4,231,177**	**4,248,914**	**(17,737)**

DEBT MANAGEMENT

Net debt servicing costs are calculated by subtracting sinking fund earnings from debt servicing costs. Net debt servicing costs are forecasted to be $8.9 million higher because sinking fund earnings are forecasted to be less than budgeted. The current assumption for the Canadian dollar is $1.4584 ($0.6857 USD/CAD), for Canadian treasury bills is 5.02% and for the Japanese Yen is 108.7.

BORROWING PROGRAM

The Province has completed its 1999-2000 borrowing program of $1.2 billion, which covers 1999-2000 borrowing needs and refinancing of existing debt. In January and early February the Province borrowed a total of $312.0 million; $240.0 million under its domestic Canadian dollar Medium Term Note program by way of three institutional transactions and the remainder under a loan denominated in the Euro currency. The latter issue was fully hedged to Canadian currency. The Province also opted to exercise its option to roll-over its $73.9 million Canada Pension Plan debenture maturing on March 1, 2000 for a further term of 20 years.

The Sysco provision of $378.5 million represents an estimated additional cash requirement of $100.0 million up to March 31, 2001.

ACCOUNTING POLICY UPDATE

In the 1998-99 fiscal year, the province initiated significant changes to its stated accounting policy. This process continued as indicated below with major initiatives in accounting for long term service awards, pension plans and tangible capital assets.

Long Term Service Awards
Long term service awards are cash awards to qualified retiring public sector employees. In order to fully implement consolidated reporting, the province has reviewed the accounting policies of the organizations that form the Government Reporting Entities (school boards, hospitals, etc.). Compliance with generally accepted accounting principles (GAAP) requires that the operating results for Government Service Organizations be determined using consistent accounting policies. In the past, school boards and some health authorities did not account for the increase in liability for long term service awards. To fully reflect the proper accounting for long term service awards results in an additional expenditure in 1999-2000 of approximately $5.0 million.

Pension Plan
In the past, the Province has recorded as pension expense the amount of contributions paid to the various pension plans. For 1999-2000, the Province will be accounting for pensions in compliance with GAAP for the public sector. Effective this year, pension expense will represent the Province's share of the benefits earned by employees in this period, including financing costs and the amortization of previous gains and losses. Because actuarial assumptions are used to calculate the value of benefits earned in the current period, gains and losses result when actual experience varies from what was expected. These gains and losses are amortized over the estimated average remaining service life of employees in the plans and are included in the pension expense for the year.

Tangible Capital Assets
In the past, the costs of tangible capital assets (i.e., equipment, bridges, buildings, etc.) have been expensed in the year the item was purchased. Effective this fiscal year, the Province has adopted GAAP for the accounting of tangible capital assets. This means the cost of purchases will be capitalized and amortized over the useful life of the asset. The budgetary impact is the amount of amortization expense as opposed to the full cost of assets in the year of purchase. For 1999-2000, no financial impact is expected as a result of this change in policy.

OUTLOOK FOR 2000-2001 PROVINCIAL BUDGET

The February 28, 2000, federal budget is not expected to have a significantly positive impact on Nova Scotia. Additional CHST transfers will account for just $75.4 million. Preliminary estimates of Nova Scotia's share of infrastructure funds are $30 million over three years.

Provincial income tax revenues will be maintained in 2000-2001 by switching to a tax on income system. This system is being adopted or is under consideration by most other provinces, and will replace the current provincial income tax system which is based on a percentage of federal income tax payable.

An additional pressure for 2000-2001 is a projected increase in debt servicing costs of approximately $100 million.

This document and other financial publications may be obtained by writing to:

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